

Central Intelligence Agency



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DIRECTORATE OF INTELLIGENCE

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China Launches Contracting for Major Projects
Under Seventh Five-Year Plan [redacted]

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Summary

In the last three months China has signed more than \$10 billion in contracts for Western plants and equipment. This includes both direct purchases, worth more than \$4 billion, and joint venture agreements, which will ultimately generate about \$6 billion in capital imports from the West. Transport equipment and plants account for more than half of the total--\$5.4 billion--while the giant Daya Bay nuclear power plant agreement alone accounts for \$3.5 billion. The United States has garnered almost \$3 billion in contracts, twice as much as West Germany and three times as much as Japan. The United States is unlikely to maintain this 30 percent share, however, since by year-end China probably will sign several large contracts with firms from other nations for nuclear power, coal field development, steel facilities, and chemical plants. We believe the surge in contract signings is related to China's economic planning cycle--most contracts for major projects that are scheduled for start-up during the Seventh Five-Year Plan (1986-1990) must be signed this year if the projects are to be completed by the end of the Plan. [redacted]

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This memorandum was prepared by [redacted] of the China Division, Office of East Asian Analysis and is based on information through 12 February 1985. Comments may be directed to Chief, Development Issues Branch, [redacted]

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[redacted]

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Scope of the Development Contracts

The table below provides a list of major contracts signed by the Chinese since early November 1984. Several caveats are in order:

- o Joint ventures are valued not at their capitalized (equity) values, but rather at total cost, including the expected cost of foreign equipment not yet purchased.
- o Although we believe the list only contains finalized contracts and not "letters of intent," some of the latter may have been included [redacted]

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- o The table excludes all contracts under \$5 million, of which there have been many.

- o We do not know how complete the list is because the reporting is better for the United States and Japan than for Western Europe.

Nevertheless, the size and scope of contracts signed indicates that the Chinese have launched their program to purchase capital goods for projects under the Seventh Five-Year Plan (1986-1990). [redacted]

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We do not believe that the Chinese are acting capriciously. Most of the deals have been under negotiation for several years and are consistent with what is known about the priorities established for the Seventh Five-Year Plan. Actually, the upsurge in purchases is not as sudden as it appears. Imports of capital goods have been increasing steadily since late 1982, and last year jumped about 50 percent to well over \$6 billion. The new deals are simply more visible because of their size. [redacted]

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The timing of the signings may, in some instances, be related to the October 1984 Third Plenum of the 12th Party Congress and to the formal decentralization of the Ministry of Foreign Economic Relations and Trade, which took place on 1 January 1985. Many of the projects only received State Council funding approval in the fourth quarter, and some contracts were signed only after ministries were granted authority to conduct trade on their own in January. [redacted]

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Access to international financing is a major difference between this round of purchases and the one that took place with equal dispatch in late 1978-early 1979. In December 1978 China signed more than \$7 billion in contracts for whole plants. In February 1979, however, the Bank of China suspended \$2.6 billion in contracts signed with Japanese firms because Tokyo had failed to make available low-interest financing as promised.* This time the Chinese have arranged their financing in advance. Most of the joint venture agreements do not require substantial Chinese expenditures of foreign exchange. For contracts that do entail foreign exchange outlays, the Chinese have access to large amounts of

* All of the contracts were suspended within the 60-day time limit permitted under the terms of the contracts for Bank of China review. The Chinese reinstated all contracts but one in July 1979, immediately after Tokyo put together a financial package consisting of dollar loans at commercial rates and yen loans from Japan's Export-Import Bank.

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fixed-rate funds from the World Bank, Japan's Overseas Economic Cooperation Fund (OECE), and from ex-im banks in Japan, the United Kingdom, France, Italy, and other countries. Only the US contracts appear to call for cash payments. And China's own reserves are in excellent shape. Valued at more than \$20 billion, China's holdings of international reserves are the tenth largest in the world.

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We expect further sizeable contracts this year, particularly in coal, hydroelectricity, nuclear power, offshore-oil, thermal power, petrochemicals, and steel. In the past the Chinese have signed almost all major contracts for development projects either before or in the first year of a five-year plan. The Chinese have stated that they plan to obtain about \$50 billion in capital from the West during the course of the Seventh Five-Year Plan, perhaps half of which will be contracted for by the end of the year.

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Up to this point transport equipment, led by trucks, aircraft, and automobiles, appear to have received the highest priority. (Our list does not include the sale of 220 GE locomotives for \$200 million or the Sikorsky sale of S-70C helicopters for \$150 million, deals that were concluded before November). The United States has had a competitive edge in these areas and in offshore oil, satellites, and a few other high-tech fields. Japan, West Germany, France, and the United Kingdom, however, appear to have the lead in negotiations for several other major capital projects due to be signed later this year.

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